DEFERRED COMPENSATION

Offered by

The
City of Tucson

FOR MORE INFORMATION CALL
THE RETIREMENT OFFICE, FINANCE DEPARTMENT
CITY HALL, 1ST FLOOR EAST
255 W. ALAMEDA ST.
791-4598 (PHONE)
791-5942 (FAX)

ICMA Representatives:	**Mary Inorio** **Local Phone:** **Email:** minorio@icmarc.org	**1-888-883-8614**
	Tom Axline **Email:** taxline@icmarc.org	**1-877-439-1144**
ICMA Investor Services:	**Customer Service**	**1-800-669-7400**
ICMA Website:	**Internet: http://www.icmarc.org**	
NATIONWIDE Representative:	**LaJuanda Pawley** **Local Phone:** **Email: pawleyl@nationwide.com**	**520-770-1076, Ext. 39**
NATIONWIDE Investor Service	**Customer Service Phone:**	**1-877-677-367**
NATIONWIDE Web Site	**Internet: http://www.nrsforu.com**	

WHAT IS DEFERRED COMPENSATION?

Deferred compensation is a savings program that allows participants to contribute a portion of earnings (before State and Federal income taxes) to a retirement account. This program is designed to accumulate retirement income by postponing taxes, building savings and creating an investment portfolio. This booklet is an overview of deferred compensation. It is not intended to give a detailed description of plan provisions. For details, please contact the Retirement Office at 791-4598. City Hall, 1st floor East.

IS THE CITY OF TUCSON RECOMMENDING DEFERRED COMPENSATION?

The City of Tucson recommends that you prepare for your future. There are many tax advantaged savings programs available and deferred compensation is just one option. Though deferred compensation has its advantages, so do IRA's, life insurance, home ownership, etc. Deferred compensation also has drawbacks and is not right for everyone. If you believe it is right for you, the City has 3 plans available to choose from:

City Deferred Compensation Plan - this is a portfolio managed by the City with investments in fixed income or bond securities. It is considered a conservative investment.

ICMA (ICMA-RC) and NATIONWIDE (PEBSCO) are firms that administer employee savings programs. They offer a variety of investments from very safe to quite aggressive. These investments include money market mutual funds, bond mutual funds, and stock market funds.

DO I HAVE TO PARTICIPATE? and WHO CAN PARTICIPATE?

Deferred compensation is a voluntary program offered by the City to all permanent employees.

WILL YOU DECIDE WHAT IS BEST FOR ME TO DO?

The Retirement Section can provide certain information for all three providers. We will discuss individual circumstances, options, etc, and can provide some education on investments, potential returns and risks, but we do not give investment advice.

HOW MUCH CAN I CONTRIBUTE?

Contribution deferral limits are scheduled to increase over the next four years. The limit may periodically increase with inflation. Current contribution limits are up to 100% of taxable income not to exceed:

Year	Amount
2004	$13,000
2005	$14,000
2006	$15,000

CONTRIBUTION LIMITS FOR PARTICIPANTS AGE 50 AND OVER

Individuals age 50 and older, may make deferrals in addition to the amount above as follows:

Year	Additional Amount	Total Annual Limit
2004	$3,000	$16,000
2005	$4,000	$18,000
2006	$5,000	$20,000

WHAT IS THE MINIMUM AMOUNT I CAN CONTRIBUTE EACH PAYDAY?

The minimum contribution is $10.00 per pay period. (Per Plan)

CAN I INCREASE, DECREASE, OR STOP CONTRIBUTIONS AT ANY TIME?

Two changes increasing your deferral amount per calendar year are allowed. Contributions may be stopped or decreased at anytime. If you are increasing your deferral amount, changes become effective on the first payday of the next month.

WHAT INVESTMENT OPTIONS ARE OFFERED?

The plans offered have investment options ranging from conservative to aggressive growth. It is important to remember that although aggressive growth options give an opportunity to earn higher rates of return, the flip side of the coin is that there is a greater potential for loss.

WHAT RISKS AM I TAKING?

Risk is the potential for loss. In periods when investments have been strong, investors sometimes lose sight of the risks that come with investing in stocks and bonds. Before investing be sure to understand the risks involved.

HOW DO I CONTRIBUTE TO THE PROGRAM?

All contributions are required by Federal law to be made by payroll deduction. The payroll deduction feature provides an easy way for you to establish a regular and long-term savings pattern.

WHAT EFFECT WILL DEFERRED COMPENSATION HAVE ON MY NET PAY?

Because contributions are taken before income taxes, the net pay does not decrease by the total amount of the deduction ($50.00 contribution -- net pay may decrease by approximately $40.00). The effect of deferred compensation on net pay will depend on your individual circumstances, but one of the most important features is that no income taxes are paid on your pay that is deferred until you withdraw it.

IS THERE A “DUMP IN” PROVISION?

A sum of money, such as an inheritance, cannot be directly “dumped” into the deferred compensation plan. All contributions must be deferrals from wages. The employee could choose to increase their deferred compensation contribution (subject to the regular contribution limits) and live off of the inheritance or windfall.

WHAT IS THE CATCH-UP PROVISION?

There is an opportunity to “Catch-Up” by contributing up to twice the regular limit, if prior years contributions did not meet the maximum allowable amount for that year For more information, call the Retirement Office to request a copy of the Catch-Up Provision, or to set up an appointment.

WHAT ARE THE FEES CHARGED ON DEFERRED COMPENSATION ACCOUNTS?

Listed below is the range of each provider's fees. These fees include administrative fees, advisory fees, expense charges, 12b-1 fees (primarily marketing and distribution expenses charged by mutual funds), etc. These fees are subject to change over time. Rebates from the investment firms may lower these amounts. The fees (deducted from earnings prior to distribution) vary:

City Plan	.30%
ICMA	.60% - 1.87%
NATIONWIDE	1.18% to 2.45%

WHAT IF I GET A DIVORCE?

Deductions made into deferred compensation while married are community property and are subject to the divorce proceedings. If the court grants some of your assets to your spouse, it will be done through a Domestic Relations Order (DRO). If your attorney is preparing a DRO, we would be happy to review it before it is submitted to the courts. Though we cannot and should not take sides in a divorce, nor dispense legal advice, we can tell you whether or not our office can administer a proposed DRO. Distributions to an ex-spouse can be made even if the member is not eligible to receive a distribution, and the recipient is responsible for the taxes on distributions.

WHEN CAN I WITHDRAW FUNDS FROM MY ACCOUNT?

You may withdraw funds upon:

1. **Retirement**
2. **Termination of employment (for any reason)**
3. **An unforeseeable emergency as defined by the IRS. This requires board approval and is not always granted.**

A distinguishing feature of our section 457 deferred compensation plan is that there are no penalties for withdrawal at any age. Income taxes, however, will be payable in the year funds are distributed.

CAN I TRANSFER MY FUNDS TO OTHER PLANS?

If you worked for the County or State, (or other governmental employer) you may roll over funds from their deferred compensation plan to ours. Similarly, if you end employment with the City of Tucson and go to work for the County or State (or other governmental employer) you may transfer your deferred compensation account to theirs. Effective January 1, 2002, you may roll your deferred compensation account into an IRA, pension plan, 401K, etc. For more information on rollovers we encourage you to call the Retirement Office at ext. 4598.

CAN I TRANSFER FUNDS FROM OTHER PLANS INTO DEFERRED COMP

Yes. Rollovers from other qualified retirement savings plans are allowed by law. But not all plans accept rollovers from other plans. Contact your plan representative or the retirement office for details.

WHAT ARE MY PAYOUT OPTIONS?

You choose how your deferred compensation assets will be paid out. Payment options include lump sum, monthly payments, periodic payments (quarterly, annually), specified amount payments, or lifetime annuity. Not all plans offer all options. Participants have the ability to modify distribution schedules after payments have begun. Distributions must comply with IRS required minimum distribution requirements. Participants may also rollover 457 plan assets into an IRA, pension plan, 401K or other qualified retirement pans. Contact the retirement office for more information at ext. 4598.

WITH A PENSION ACCOUNT, WHY WOULD I NEED ANOTHER RETIREMENT SAVINGS?

Your retirement will likely last 20 years or more. Will your pension benefit be enough? For most people, your Social Security benefits may not begin at the same time your pension benefits begin.

Today, on average, the largest single portion of a retiree's income (nearly 40%) comes from personal savings and investments. Recent surveys suggest that almost half of all Americans between 45 and 64 are not currently saving anything for retirement. We recommend that savings become a key element of your retirement planning. Over the long term, you have to invest money to make money. Otherwise, your retirement may not be secure.

WON'T SOCIAL SECURITY AND MEDICARE HELP ME IN MY RETIREMENT YEARS?

To an extent, but the future of Social Security and Medicare is uncertain. A savings plan can help offset any cutbacks in these programs.

I CAN'T RETIRE FOR YEARS - WHY START SAVING NOW?

People are living longer.

Americans are living longer than ever before. Living longer means more years in retirement. It also means you will need to save more now so that you don't outlive your savings. In 1900, life expectancy at birth was forty-seven years. For men reaching age 65 today, average life expectancy is eighty-one years of age ; for women, it's eighty-five years of age.

Early retirement requires more savings.

If you're considering early retirement (before age 62), you'll need to save even more. You'll have fewer years in which to save, your investments will have less time to grow, and you'll be in retirement even longer. Financial experts agree that you will need 70-80% of pre-retirement income to maintain your current standard of living after retirement. We suggest 100% of pre-retirement income to cushion against inflation. If you are saving for retirement now, good. Our suggestion: Try to increase the amount saved. And find ways to maximize every dollar you save (and will save in the future). If you're not saving, get started.

Benefit options will reduce your monthly income.

With the standard TSRS benefit, payments stop at your death. This could leave a spouse or children without income. There are options that allow payments to continue to a designated beneficiary. However, these options will lower your monthly benefit. An alternative available to offset this reduction is to save through deferred compensation.

Inflation can eat away your savings.

Inflation is the tendency for prices to rise over time. Since 1933, inflation has averaged about 4% a year. No matter how much you save for retirement, if the investments are not outpacing inflation, the value of your retirement assets may actually be shrinking. The chart below shows the impact on the cost of listed items assuming a 4% rate of inflation over a fifteen-year period.

	2003	**2008**	**2013**	**2018**
Bread	$1.59	$1.93	$2.35	$2.86
T-Bone Steak	$8.99	$10.94	$13.31	$16.19
Gasoline	$1.71	$2.08	$2.53	$3.08
Domestic Mid-sized Car	$18,495	$24,338	$27,377	$33,308

The benefits of compounding.

One of the most important things you can do is take advantage of the time you have until retirement. The more time you have on your side, the longer your money will have to grow. And that will mean more money when you are ready to retire. Compounding means that when you reinvest the earnings on your savings, those earnings will earn additional earnings, enabling your savings to grow faster over time. Adding the power of compounding can have a significant impact on your retirement savings.

YOU'RE LOSING GROUND

Everyone would like to retire and not have to change their standard of living. In order to do this, start planning early for income replacement. Delaying, even a short time, may significantly increase the amount of money you need to save each year (or significantly reduce the amount you have in retirement).

The following charts show the effect of saving early as opposed to trying to play catch-up later.

YOUR PERSONAL SAVINGS FOR RETIREMENT

Year	Amount Saved Each Payday	Amount Saved Each Year	Cumulative Total Saved	Earnings at 5%	Cumulative Total Earnings	Value Value At End of Year
1	50	1,300	1,300	32	32	1,332
2	50	1,300	2,600	100	132	2,732
3	50	1,300	3,900	172	303	4,203
4	50	1,300	5,200	247	550	5,750
5	50	1,300	6,500	326	877	7,377
6	50	1,300	7,800	410	1,286	9,086
7	50	1,300	9,100	497	1,783	10,883
8	50	1,300	10,400	589	2,373	12,773
9	50	1,300	11,700	696	3,058	14,758
10	50	1,300	13,000	788	3,846	16,846
11	50	1,300	14,300	895	4,741	19,041
12	50	1,300	15,600	1,048	5,839	21,439
13	50	1,300	16,900	1,130	6,969	23,869
14	50	1,300	18,200	1,254	8,223	26,423
15	50	1,300	19,500	1,385	9,608	29,108
16	-	-	19,500	1,489	11,097	30,597
17	-	-	19,500	1,566	12,663	32,163
18	-	-	19,500	1,646	14,308	33,808
19	-	-	19,500	1,730	16,038	35,538
20	-	-	19,500	1,818	17,856	37,356
21	-	-	19,500	1,911	19,767	39,267
22	-	-	19,500	2,009	21,776	41,276
23	-	-	19,500	2,112	23,888	43,388
24	-	-	19,500	2,220	26,108	45,608
25	-	-	19,500	2,333	28,441	47,941
26	-	-	19,500	2,453	30,894	50,394
27	-	-	19,500	2,578	33,472	52,972
28	-	-	19,500	2,710	36,183	55,683
29	-	-	19,500	2,849	39,031	58,531
30	-	-	19,500	2,995	42,026	**61,526**

If you had accumulated $50,000 in your deferred compensation account at retirement, you could expect payments like the following:

$943.56 a month for **5** years, or
$530.33 a month for **10** years
$395.40 a month for **15** years
given a 5% annual rate of return

LOOK WHAT HAPPENS IF YOU WAIT AND TRY TO PLAY CATCH UP
YOUR PERSONAL SAVINGS FOR RETIREMENT

	Amount Saved					
Year	Each Payday	Each Year	Cumulative Total Saved	Earnings At 5%	Cumulative Total Earnings	Value At End of Year
1	-	-	-	-	-	-
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	-	-	-	-	-	-
5	-	-	-	-	-	-
6	-	-	-	-	-	-
7	-	-	-	-	-	-
8	-	-	-	-	-	-
9	-	-	-	-	-	-
10	-	-	-	-	-	-
11	-	-	-	-	-	-
12	-	-	-	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	75	1,950	1,950	48	48	1,998
17	75	1,950	3,900	150	198	4,098
18	75	1,950	5,850	257	455	6,305
19	75	1,950	7,800	371	826	8,626
20	75	1,950	9,750	489	1,315	11,065
21	75	1,950	11,700	614	1,929	13,629
22	75	1,950	13,650	746	2,675	16,325
23	75	1,950	15,600	884	3,559	19,159
24	75	1,950	17,550	1,029	4,588	22,138
25	75	1,950	19,500	1,182	5,769	25,269
26	75	1,950	21,450	1,342	7,111	28,561
27	75	1,950	23,400	1,572	8,683	32,083
28	75	1,950	25,350	1,695	10,378	35,728
29	75	1,950	27,300	1,881	12,260	39,560
30	75	1,950	29,250	2,078	14,337	**43,587**